

# Why 'Indicative Planning' Failed: British Industry and the Formation of the National Economic Development Council (1960–64)

## *Abstract*

The NEDC (Neddy) was established in 1962 through a joint initiative of leading industrialists and the Conservative Government. Its broad aim was to improve economic co-ordination between companies and policy-makers, and thus enable Britain to steer a course away from 'stop-go' and towards stable growth. This article examines the sources of the Neddy's swift demise into irrelevance by 1964. Aspirations for the NEDC were multiple and conflicting. Leading industrialists considered it a vehicle for increasing their influence over the course of economic policy. The government, however, was jealous of its policy-making autonomy, and interested in the NEDC primarily as a signal to currency speculators of their commitment to tackling the various supply-side problems of the UK economy. The article stresses two sets of 'institutional' factors which doomed the NEDC's transformative potential even as it was being set up. First, business was suspicious of co-operation with (and, more particularly revealing sensitive firm level information to) a body that was so close to central government. Employers were justifiably worried that the NEDC would be used by future governments as the basis for more *dirigiste* rather than merely indicative planning. Second, companies wedded to the economic organizational principle of 'collective laissez-faire' resisted peak-level efforts to induce co-ordination. Thus, paradoxically, the very co-ordination problems in British business that prompted the NEDC's creation were the primary reasons for its failure.

It was a foretaste of its ineffectiveness that it was at once christened 'Neddy'. It was to be a lovable lion, without claws. (Donald Horne, *God Is An Englishman*)<sup>1</sup>

### *Introduction*

The National Economic Development Council (NEDC) quickly turned out to be a peripheral feature of the British political landscape. Within eighteen months of its establishment its fragile constitutional privileges had been withdrawn by a Labour government determined to remove any obstacles to centralized economic planning. By this time the social partners' faith in the efficacy of the NEDC machinery had long since vanished. Employer associations and leading industrialists had always opposed the organizational basis of the planning machinery, while union heads sought a more cosy, informal bilateral relationship with the incoming socialist government. After late 1964 the NEDC continued as a forum for discussion between government, industrialists, and union leaders, and its members enjoyed not inconsiderable publicity and prestige. But these discussions could have taken place anywhere, and the NEDC's original and independent 'indicative planning' function was replaced by a near obsession with the goal of securing a viable incomes policy.

Why, then, study an episode of marginal consequence to contemporary British economic and political history? In short, because the failure of institutional innovations is as interesting and, more importantly, as revealing as successes. First, it must be remembered that the inauguration of the NEDC and of its companion research body the National Economic Development Office (NEDO) was accompanied by high hopes and exuberant political rhetoric.<sup>2</sup> The example of French planning, specifically its association with accelerated economic growth, was genuinely perceived by government and industry alike as a new paradigm for economic policy-making. Such

<sup>1</sup> Donald Horne, *God Is An Englishman* (London, 1970), 229. I am grateful to Ewen Green, Peter Hall, David Howell, Ed Miliband, John Rowett, David Soskice, Desmond King, and two reviewers for helpful comments.

<sup>2</sup> Chancellor Selwyn Lloyd announced in *The Times*, 29 September 1961: '... the time has come to establish new and more effective machinery for the co-ordination of plans and forecasts for the main sectors of our economy'. Harold Macmillan also held the experiment in high esteem, judging it to be 'an important and valuable part of our national machinery ... fruitful in every sense of the word'. Harold Macmillan, *At the End of the Day* (London, 1973), 37. See also Sir Donald MacDougall, 'The Machinery of Economic Government', in D. Butler and A. H. Halsey, *Policy and Politics: Essays in Honour of Norman Chester* (Oxford, 1978), 176–8; H. Phelps-Brown (himself a NEDC member), 'The National Economic Development Organisation', *Public Administration*, 41 (Autumn 1963), 245–6; OECD, *Growth and Economic Policy* (Paris, 1964). It should also be noted that although the TUC initially refused to participate in the consultative talks over the new planning body, its leaders were extremely enthusiastic about the basic idea. The boycott was largely a signalling gesture to member unions in protest at the government's plans to institute national incomes control, and indeed succeeded in keeping this issue off the NEDC's agenda for over a year.

was the enthusiasm of the Federation of British Industries (FBI) that they were prepared to abrogate the cherished principle of voluntarism in important ways. The NEDC represented not only an eager turn towards some form of planning, but also an admission that an economic policy guided by *laissez-faire* assumptions could not deliver painless growth. Sharing the tasks of governance was seen, both at the time and in retrospect, as a fundamental break with the ideological and administrative orthodoxy of economic management. Secondly, the disappointment of the NEDC is of interest precisely because similar institutional experiments elsewhere proved so durable and productive. Examples from France, Sweden, Belgium, the Netherlands, and (in a different way) West Germany demonstrate the potential of such initiatives, and focus interest on the issue of the factors in the British case underlying such exceptionalism.

Thirdly, accounting for the NEDC's poor record is a corrective to the strangely rosy picture of 'Neddy' painted by some of its scholars. Keith Middlemas observed in a generally glowing account in 1983 that the 'NEDC has never lost faith in the value of coherent industrial policy propounded, by agreement with industry and unions, on the basis of patient enquiry and analysis'.<sup>3</sup> More generally, examining the NEDC casts light, and doubt, on Middlemas's picture of British industrial politics as characterized by a process of creeping 'corporate bias'.<sup>4</sup> His account falls prey to the myth that tripartism constitutes firm evidence of consensus politics. It is also strangely uncritical of the meagre achievements of such experiments, and provides no account of the *micro-level* obstacles they faced. Rather than 'corporate bias', the NEDC experiment, as with many others in the postwar period, exemplifies the severe organizational limits to collectivist policy initiatives, and the resilience of the principle of 'collective *laissez-faire*'.<sup>5</sup>

Other more sceptical accounts of 'Neddy' attribute its impotence to the antagonism of the Treasury within Whitehall,<sup>6</sup> and/or to the over-

<sup>3</sup> See Keith Middlemas, *Industry, Unions and Government: Twenty One Years of NEDC* (London, 1983), 6. See also Stephen Blank, *Industry and Government in Britain: The Federation of British Industry in Politics 1945–1965* (Farnborough, 1973), 180; William Brown, 'Incomes Policy in Britain: Lessons from Experience', in Ronald Dore, Robert Boyer, and Zoë Mars (eds), *The Return to Incomes Policy* (London, 1994), 34; Everett Hagen and Stephanie White, *Great Britain: Quiet Revolution in Planning* (New York, 1966), 162.

<sup>4</sup> Keith Middlemas, *Politics in Industrial Society: The Experience of the British System since 1911* (London, 1979), 20. Politics after 1979 of course demonstrated precisely how non-linear this process was.

<sup>5</sup> The term is Otto Kahn-Freund's—see ch. 1 of his *Selected Writings* (London, 1978). For an excellent discussion of the principle in the context of British labour law, see Paul Davies and Mark Freedland, *Labour Legislation and Public Policy* (Oxford, 1993), esp. 8–59.

<sup>6</sup> Samuel Brittan, *The Treasury Under the Tories, 1951–64* (Middlesex, 1964), esp. 215–22; Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Oxford, 1986), ch. 3; J. Leruez, *Economic Planning and Politics in Britain* (London, 1975), 104–8.

optimistic targets it set for macroeconomic performance.<sup>7</sup> While both of these factors are important, they suggest that the NEDC's failure was one of poor policy *choices* by government. The implication is that 'indicative planning' could have worked if only the blueprint had been different. Yet I argue below that this is to do an injustice to the magnitude of the 'industrial organisational' problem that confronted Neddy's masters. Rather than treat the NEDC as an administrative artefact within Whitehall, this article considers the turn towards planning from the point of view of *industry*. It argues that the spectacular irrelevance of the NEDC lies not in the errors of technocrats, but in the very organizational incapacity of British industry that 'indicative planning' was designed to overcome. In particular, it draws attention to two design flaws in the constitution of the NEDC—flaws that tinkering alone could not have remedied, but which are rooted in the organizational patterns of the British political economy.

This article therefore has a dual focus. Its empirical aim is to use recently released archival evidence to chart the establishment and the initial operation of the Council. Far from representing the apotheosis of consensus politics, the founding of the NEDC exemplifies the limits to collaboration between government and industry. Industrialists saw in NEDC the chance for the state to delegate industrial policy to the collective wisdom of key firms in key sectors. Conservative ministers, however, were prompted into the quest for social partnership by economic crisis and the need to be seen to respond firmly to rising costs. At no stage was there anything resembling a consensus on the shape of the organization, its relationship to government, the work it would undertake, or the status of its views and recommendations.

The second aim of the article is to account for this policy failure. Neddy's failure to stimulate supply-side co-ordination and achieve its targets was a failure to overcome the deep-seated organizational problems of British industry. It is a problem familiar to economists and historians alike. Conceptually, it has received the clearest exposition in the work of David Soskice, and is best illustrated through a parallel with industrial organization in a contrasting country, such as (West) Germany.<sup>8</sup> Soskice contends that, in contrast to West Germany, British capital is internally 'unco-ordinated'. At least three dimensions of this organizational incapacity are

<sup>7</sup> G. Denton, M. Forsyth, and M. MacLennan, *Economic Planning in Britain, France and Germany* (London, 1968), 110–17. Denton *et al.* note that '[t]he balance of payments assumptions of the (1962) programme were . . . nothing less than heroic' (117).

<sup>8</sup> The most comprehensive accounts are available in David Soskice, 'Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-coordinated Market Economies', in R. Brunetta and C. Dell'Ara (eds), *Labour Relations and Economic Performance* (London, 1990), and in David Soskice, 'Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s', in Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens (eds), *Continuity and Change in Contemporary Capitalism* (New York, 1999).

important here. First, the absence of links between financial and industrial capital, essential for the provision of 'patient capital' to firms for investments with long-run returns. Second, the absence of strong employer organizations with high coverage of member firms, and capable of striking binding peak-level deals with government and union representatives. And third, the absence of inter-firm co-operation to provide collective production goods—such as skilled labour, regulation of wage regimes, and investment in research and development—that are required for the development of a range of products, and for the use of more innovative production technologies.

The impact of these organizational features on a variety of economic activities has been profound and widely discussed. Of interest here is the way in which limited capital co-ordination affects the viability of public policy initiatives aimed at industry—in particular the case of the NEDC experiment. As detailed below, the strategic incapacities of British industry were at the root of the widespread perception of a need for peak-level tripartism. Yet paradoxically, these same incapacities prevented the recommendations of the NEDC from being effectively enacted. Pursuing target levels of aggregate growth without resolving a variety of production bottlenecks merely exacerbated their detrimental impact on the British economy. Firms regarded the fact-finding and 'edict-issuing' functions of Neddy as nothing more than interference from government, and were largely unable and unwilling to co-operate. And in an economy with strong low-cost competition within sectors, the collection of accurate information from member firms upon which 'indicative planning' depended was virtually impossible.

But the design stage and early history of the NEDC demonstrate not only the resilience of industrial fragmentation. Rather, the structure of the Neddy apparatus actually *amplified* the problems highlighted above, by institutionalizing two 'constitutional contradictions'. The first contradiction concerned its institutional location. At the insistence of civil servants and Cabinet members, the NEDC was tied closely to the machinery of government. Yet one of its central functions was to elicit information from firms and sectoral associations for the formulation of 'indicative plans'. The contradiction was that the very proximity to government that was intended to guarantee the Council's influence over government policy served to deter firms, anxious about their autonomy and competitive advantage over other British firms, from 'investing' in the Neddy machinery. And the possibility that the Council could be used by a future (Labour) government as a platform for comprehensive central planning compounded their reservations.

The second contradiction was one between the demand-side and supply-side policies of the NEDC. The Council's central aim was to stimu-

late growth while tackling the side-effects of supply-side blockages—most notably, the recurrent balance of payments problem that resulted from import-led domestic expansion. Addressing these obstacles, however, would have required a degree of intervention that was unacceptable to industry. As a result, economic growth was accelerated without ameliorating the supply-side bottlenecks that made growth so costly. Rather than eliminate the stop-go cycle, the early years of the NEDC contributed significantly to ‘a more than extreme version than usual of the “go” stage’.<sup>9</sup>

The article proceeds in four parts. First, it charts the convergence of interest in a French-style industrial commissariat from 1959 to 1961. Second, it relates the detailed and often fractious discussions between the Chancellor and leading industrialists up to early 1962. During this period questions of ‘architectural design’ dominated discussions, but were far from resolved by the time of the NEDC’s launch in March 1962. Third, the year and a half of the Council under the Conservatives is discussed. This was a period dominated by mutual suspicion between government and the leading industrialists, and a growing awareness of a chronic inability to rectify the organizational incapacities of British industry. Fourth, Labour’s reforms to the NEDC apparatus are sketched, reforms which in effect sounded the death-knell for the NEDC as either a ‘Rueff’ or ‘Monnet’ body in industrial policy from October 1964 onwards. Far from marking a further step on the road to peak-level collectivism, NEDC’s reconstitution and subordination to the National Plan (and to the newly created Department of Economic Affairs (DEA)) was a regression towards government autonomy from social partnership.

### *The Turn to ‘Planning’*

Industrial tripartism was not new to British politics in the 1960s. Since 1945, the Dollar Export Board, Anglo-American Productivity Committee, National Joint Advisory Committee, and the National Production Advisory Council to Industry had functioned as forums for the exchange of views between governments, employers, and unions. Trade union support for some form of central tripartite machinery to govern economic policy was long-standing. As early as 1944 the Trades Union Congress (TUC) General Council in its *Report on Reconstruction* had called for government to be bound by an explicit industrial contract, and for the establishment of a central economic forum to advise on economic policy.<sup>10</sup> But the intended function of NEDC exceeded that of mere tripartite discussion. It was based on a belief that the existence of an authoritative body on the fringes of

<sup>9</sup> Alan Budd, *The Politics of Economic Planning* (Glasgow, 1978), 102.

<sup>10</sup> Middlemas, *Politics in Industrial Society*, 393.

formal political power would serve to stimulate co-ordination in the economy at large, and in turn that co-ordination could overcome the chronic problems of British industrial production. The idea was a French import, a combination of the principles underlying the Rueff and Monnet Commissions in the contemporary French planning apparatus. Its British incarnation was the less *dirigiste* notion of 'indicative planning', which expressed the hope that the publication of targets for growth and investment by a central authority embodying the principles of social partnership would stimulate more stable economic growth.<sup>11</sup> By the summer of 1961 British industry and government had signalled their interest in the idea of indicative planning, though the timing of its implementation owed more to economic crisis than anything else.

The Federation of British Industries (FBI), the largest of the four employer organizations until 1965, took a big step towards embracing indicative planning at its 'Next Five Years' Conference at Brighton in 1960. Notably, the group on 'Economic Growth in Britain' (Group III) argued that it was no longer possible or profitable to resist the political commitment to full employment, the pronounced role of the state in the mixed economy, and the pressures of new technology. British business would have to accept these features as givens, and seek solutions to the resulting problems of inflation and external equilibrium through economic *growth*. The group sought an end to stop-go policies through 'a more conscious attempt to formulate not targets or plans but assessments of possibilities or expectations'.<sup>12</sup> Undoubtedly the interest in policy alternatives had been prompted by the central place afforded to full employment in Macmillan's electoral campaign during 1959. Perhaps more importantly, many industrialists had expressed dissatisfaction with the division of Europe into two trading blocs (the EEC and EFTA, founded in December 1959) and Britain's association with the weaker of the two.<sup>13</sup> During the 1955–8 period, British production stagnated while the economies of EEC countries expanded rapidly, while the boom that succeeded it was swiftly followed by the now-familiar balance of payments crisis. As Blank notes:

As late as 1957, [industrialists] had seen the key to success in lessening government's weight in the economy and in maintaining as great a distance as possible between government and industry. But as crisis followed crisis . . . it became obvious that industry had not secured its independence. Indeed it was painfully clear that industry neither was independent from government nor

<sup>11</sup> The case for 'indicative planning' is concisely explained in C. T. Sandford, 'Indicative Planning', in C. T. Sandford (ed.), *Economic Policy* (London, 1970), 262–77.

<sup>12</sup> ' . . . in our priorities, growth comes first, because given growth all else can follow', Sir Hugh Beaver, from FBI: *The Next Five Years: Report of an FBI Conference at Brighton*, 24–26 November 1960 (London, 1961), 6–7.

<sup>13</sup> See Blank, *Industry and Government in Britain*, 146.



had the ability to influence its policies. Increasingly, however, the French system of economic planning, resting as it was believed to be on a vigorous system of consultation between industry and government, seemed to provide an effective method for making industry's influence felt on the nation's economic policies while still retaining its independence.<sup>14</sup>

After the conference the FBI commissioned a committee chaired by Sir Hugh Beaver to investigate the possibilities for long-term economic planning. The Beaver committee began by endorsing the idea of identifying 'pathfinder industries' whose prospects were crucial to the success of the UK economy. The initial intention seems to have been that these industries would be asked to achieve a 3 per cent rate of growth, given an assurance from government of stable macroeconomic policy. But a meeting of the committee with Reginald Maudling in March suggested 'that the Government were not yet prepared to regard growth as a first priority', nor to 'take any action to stimulate growth which would in any way risk a further worsening of the Balance of Payments position'.<sup>15</sup> In consequence the committee turned to an investigation of the obstacles to higher growth through a series of witness sessions. Their conclusions would prove to be recurrent themes of NEDO reports in subsequent years.

The picture that emerges from these investigations is of an economy with poor investment in human and fixed capital, and consequently incapable of sustained economic growth. The committee heard that British industry accumulated stocks as an insurance against demand fluctuations associated with stop-go policies, and was generally reluctant to expand into export markets. In addition, the fact that 'profit margins were lower in export markets than in the home market . . . provided a serious dilemma between shareholder and national interests'.<sup>16</sup> When expansion did occur, it was therefore concentrated on domestic markets, and rapidly generated balance of payments difficulties. Industrialists also complained that returns to investment were too low to make it profitable, blaming high company tax and low depreciation allowances. Evidence from the National Institute of Economic and Social Research (NIESR) Industrial Research Survey was similarly gloomy about British patterns of research and development, concentrated in very large firms in five or six industries, and limited by a lack of qualified scientific manpower.<sup>17</sup> The shortage of skilled labour more generally was identified as the main constraint upon economic expansion in two senses—not only was industry consequently unable to respond to increases in consumer demand, but equally importantly the

<sup>14</sup> *Ibid.*, 147.

<sup>15</sup> Meeting with Maudling, 27 March 1961. MSS 200.F/1/1/218: Modern Records Centre, Warwick.

<sup>16</sup> Meeting #6, 10 May 1961 (F/1/1/218).

<sup>17</sup> FBI & NIESR Industrial Research Survey 1960 (F/1/2/DG).



bidding between firms for scarce labour generated wage drift and rising labour costs.<sup>18</sup>

The committee responded by broadening the ambition of economic planning to include not only forecasting and the co-ordination of plans, but suggestions for a permanent collaborative body to seek ways to overcome these hindrances to growth. In essence this marked an attempt to replicate the apparently successful model of French planning, which rested on a division of bureaucratic labour known as the 'Rueff-Monnet' model. The Monnet Commission would collate information to assess the likelihood and consequences of achieving certain aggregate parameters over a specified period; then government, with the assent of industry, would announce the figure as a target around which expectations could converge. As a permanent adjunct to the forecasting work of the Monnet Commission, restrictive practices and general obstacles to growth were isolated and removed by the powerful Rueff Commission. Whilst the co-ordinating activities of a 'British Monnet' could easily be endorsed by British industrialists, the Rueff agency's interference with the autonomous practices of firms at the heart of activities was flatly rejected by industrialists.<sup>19</sup> Here they found natural allies in Treasury officials, who saw an activist industrial agency as a threat to their dominance within Whitehall over economic policy.<sup>20</sup>

The FBI's sovereign body, the Grand Council, was struck by the pessimism of the committee's draft report, but hesitant to endorse its prescription of the creation of an Office for Economic Development.<sup>21</sup> Resistance to abrogating firm-level autonomy ran deep, as did the idea of submitting information on production to government ministers and officials, and the committee was stalled by the council.

Meanwhile, however, the Conservative government had launched its own committee on planning. The committee, chaired by the industrialist Sir Stanley Paul Chambers met in secret at Imperial Chemicals House and had a 'rolling' membership of Conservative politicians and industrial figures.<sup>22</sup> As with the FBI, the Conservatives were highly influenced by their interpretation of the example of the French model of 'indicative

<sup>18</sup> See Cohen Council 80th Meeting, 21 June 1961 (F/3/P7/3/1). Other key problems identified by Beaver included the restricted access to capital markets for small companies and the resistance of plant-level unions to the introduction of new technology.

<sup>19</sup> See, for example, Sir Maurice Laing's reflections on his visit to Paris, in his letter to Cyril Harrison, President of the FBI, 24 November 1961 (F/3/P7/2/1).

<sup>20</sup> Sir Donald MacDougall recalls in particular the vehement opposition of Otto Clarke (interview with Sir Donald MacDougall, 10 November 1994). The best account of Treasury opposition to the NEDC is in Brittan, *The Treasury Under the Tories*, 215–22, 260–2.

<sup>21</sup> Beaver suggested to Norman Kipping in June that such a body '... would blow away cobwebs and produce programmes for industry, showing the way to economic growth but without powers of enforcement' (F/3/S2/7/7).

<sup>22</sup> Interview with Lord Cockfield, 24 November 1994.

planning'. Figures such as Selwyn Lloyd, Quintin Hogg, and John Hare saw the emulation of the French system as a means of increasing state control over an increasingly unpredictable economy. For them, the virtues of planning lay in stability and malleability rather than in any commitment to economic growth *per se*. Although, therefore, Selwyn Lloyd's initiative struck some observers as a 'sudden "Damascus Road" conversion of the Conservatives to planning', the idea had been accumulating a coalition of support within the party for some time.<sup>23</sup>

The catalyst of the offer to set up the NEDC was the return of economic crisis in 1961. Foreign speculation against the pound prompted emergency restrictive measures in July 1961 similar to those that had been introduced in September 1957—a credit squeeze, a raised Bank Rate, reduced public spending, and most controversially an enforced 'pay pause'. Unlike 1957, however, Lloyd accompanied his proposals with an expressed interest in greater co-ordination with industry in the future. He announced plans to ask industry to follow the implications of a 3 per cent rate of growth and 6 per cent export growth over the next five years, and referred to the need to establish a more permanent consultative machinery. Interestingly, but predictably, the FBI Steering Committee interpreted this as an opportunity for a concerted attack on wages rather than on its members' restrictive practices.<sup>24</sup>

What accounts for Lloyd's suggestion to set up permanent institutional collaboration with the social partners? Certainly Lloyd was aware of the detrimental impact of yet another reduction in aggregate demand on businesses' prospects, and thus more generally on government-business relations. Signalling to business that government was interested in permanent collaboration, and in maintaining strong growth, was a way of reassuring business that the fiscal contraction of July 1961 was only temporary.<sup>25</sup> Furthermore, Lloyd was keen to establish an alternative source of policy advice outside the Treasury, whose reputation and trustworthiness had been damaged by the 1961 sterling crisis.<sup>26</sup>

<sup>23</sup> Trevor Smith, 'Britain', in J. Hayward and M. Watson (eds), *Planning, Politics and Public Policy* (London, 1975), 57. For an in-depth discussion of ideas on planning in the prewar period, see Daniel Ritschel, *The Politics of Planning: the Debate on Economic Planning in Britain in the 1930s* (Oxford, 1997). Lloyd's early political life as a Lloyd George Liberal left him with a stronger inclination towards economic intervention than other leading Tories of the period, and certainly more than his predecessor at the Treasury (Thorneycroft) and his Prime Minister (see D. R. Thorpe, *Selwyn Lloyd* (London, 1989)).

<sup>24</sup> Lloyd's proposals were spelt out over two days in Commons debates: see House of Commons Debates 645, col. 220 (25 July 1961), and col. 439 (26 July 1961). See FBI meeting to consider Lloyd's speech, 26 July 1961: 'It was agreed that the Chancellor's references to the need to consult both sides of industry about growth were encouraging. This could lead to a change in the general attitude of mind to the question of wages and to a realization that wage increases must follow rather than precede increases in productivity' (F/3/P7/3/1).

<sup>25</sup> Sir Donald MacDougall, *Don and Mandarin* (London, 1987), 137.

<sup>26</sup> 'The constitution of the NEDC cannot be understood in isolation from the mood of

But Lloyd's statement in the House was directed not only at British industry. Perhaps a more important audience was the exchange markets in whose hands the immediate health of the British economy lay. Three months earlier Lloyd had declared in a note to Cyril Harrison, president of the FBI: 'The primary duty . . . of the government is to maintain the strength of sterling and stability in the economy'.<sup>27</sup> Emergency measures were widely perceived to be a necessary response to runs on the pound. But by 1961 they were clearly no longer sufficient to satisfy the International Monetary Fund (IMF) and foreign central banks, for whom strong sterling was an important international 'public good'. This fact was common knowledge—earlier in the month a secret FBI committee had concluded:

The conclusion appears to be that the IMF and the Central Banks can be encouraged to hold an umbrella over sterling for the time necessary for recovery *only if the Government takes steps to prevent the further rise of costs and is clearly seen to take such steps*. The use of economic regulators, old or new, might show that the Government was prepared to take unpleasant and unpopular action, and this might encourage foreign holders of sterling to some extent. But as the effects of the regulators on costs are conflicting, and in any case difficult to forecast, it is doubtful whether they are enough. Some direct attack upon labour cost inflation seems likely to be necessary. [emphasis added]

However, the options for correcting the balance of payments problem were crucially constrained by the poor performance of invisible earnings. Net invisible earnings had crashed from £443 million in 1952 to £219 million in 1959, and to £65 million in 1961.<sup>28</sup> As the FBI committee noted:

The Balance of Payments was strongly negative in 1960, with a deficit on current account of £344 million. The Balance of Payments can right itself in the near future only if there is a rapid improvement in the balance of visible trade, as there is no hope of an early substantial revival of our invisible exports.<sup>29</sup>

Lloyd realized that improving the balance of payments had to be accomplished by improving the competitive position of manufacturing exports, whilst maintaining the value of sterling on the exchange markets. Initiating discussions to establish a permanent body responsible for industrial oversight and co-ordination therefore served two 'signalling' functions. First, it constituted a commitment to tackling the characteristic supply-side

profound distrust which had gathered round the Treasury by the time of the 1961 sterling crisis. From the day it was set up the NEDC office consciously tried to establish a different order of priorities from Whitehall. Members of the Office in their off-guard moments jocularly refer to the Treasury as "the other side". Brittan, *The Treasury Under the Tories*, 221.

<sup>27</sup> Lloyd to Harrison, 27 April 1961 (F/3/P7/2/1).

<sup>28</sup> From NEDC (62) 14: 'The Expansion of the British Economy 1961–1966', table E.2 (FG 1/2).

<sup>29</sup> Both this and the preceding quote taken from Meeting of Sub-Committee of Economic Policy Committee, 5 July 1961 (F/3/P7/3/1).

problems of British industrial production, by establishing a collaborative body involving government, industry, and unions. Second, it suggested that such a body could enlist organized labour in the task of controlling labour costs through the moderation of wage claims.<sup>30</sup>

It would therefore be misleading to suggest that the NEDC was the result of an intellectual convergence of the views of business and government. To leading industrialists and FBI officials, the planning body was envisaged as a 'British Monnet', gathering information from firms, identifying constraints, and issuing authoritative targets. If output decisions could be co-ordinated, and if firms could be confident that growth would occur, then growth without a balance of payments crisis could be engineered.<sup>31</sup> To the Conservative government, however, the offer of tripartite collaboration served the immediate need of placating worried foreign investors—and the functions that any such body could serve once established were strictly limited to sagacious advice and controlling wage growth. Meanwhile, the leading Treasury officials saw a potential institutional rival in the proposed body. And even though indicative planning had its champions inside and outside of the civil service, many within Cabinet, Whitehall, and British industry oscillated between scepticism and outright hostility to the idea.<sup>32</sup>

The form and functions of such an organization, however, were not specified, and were to prove formidable obstacles to establishing agreement on anything at all. If the NEDC was born out of a sterling credibility crisis, disputes over its 'constitution' were to reflect profound credibility problems of a different sort between industry and government.

<sup>30</sup> Conservative attempts to control incomes were conspicuously unsuccessful. The National Incomes Commission ('Nicky'), designed 'to focus the wrath of public opinion on excessive wage awards', only ever received five referrals from government in its three years of existence. Meanwhile, under Woodcock's leadership, the TUC used their anger at the pay pause to keep income control off the NEDC's agenda as a condition of entry, and proved reluctant to strike a deal with an outgoing Tory administration from mid-1963 onwards. See Frank Blackaby (ed.), *British Economic Policy 1960–1974* (Cambridge, 1978), 364; Robert Taylor, *Economic Planning and Politics in British Politics: Government and Unions Since 1945* (Oxford, 1993), 112–13.

<sup>31</sup> Sir Norman Kipping, Director-General of the FBI: 'We have been influenced a good deal by the success of the Monnet Plan in France and there are very few controls in France for implementing the findings'. *Manchester Guardian*, 25 August 1961, quoted in Blank, *Industry and Government in Britain*, 190. Sir Robert Shone, head of the Iron and Steel Board and future first head of the NEDC, made similar remarks about the French model at the 'Next Five Years' conference.

<sup>32</sup> On the protracted arguments within Cabinet, for example, see Harold Macmillan's diary, *At The End of the Day*, entry for 21 September 1961. Macmillan, anticipating the Thatcher years, observed during the Cabinet's discussions 'a rather interesting and quite deep divergence of view between Ministers, really—corresponding to whether they had old Whig, Liberal, *laissez-faire* traditions, or Tory opinions, paternalists and not afraid of a little *dirigisme*' (37).

*The Ambiguity of Planning: Industry–Government Negotiations 1961–62*

The FBI warmly welcomed Lloyd's overtures in July 1961, and set about the twin tasks of formulating proposals on the body's constitutional structure, and converting their member firms to the idea of planning. With the memory of Cripps's experiment in 'forced tripartism' still fresh, FBI circulars were distributed to reassure firms that planning would not involve physical controls or compulsion, merely consultation.<sup>33</sup> Opposition from the firms themselves was never vocal—however, there was no shortage of unco-operative and intransigent behaviour when the NEDC began to seek changes at firm level. The task of reassuring member firms was made more difficult by the announcement in July of the Labour Party's proposals for a National Industrial Planning Board, endorsed by the TUC, which 'envisaged greater government control and use of coercion' than anything that had emerged from Beaver.<sup>34</sup> To the FBI leaders, protecting the autonomy of member firms' managements from creeping government was a primary imperative. In consequence, their initial proposals envisaged the 'Office' as little more than yet another discussion group.

However, Shenfield and Kipping (Secretary and Director-General of the FBI, respectively) realized that such a structure would make little headway on the question of removing impediments to growth. After a visit to the French Commissariat in August, Shenfield returned as an advocate of the 'two-tier system', 'with the Chancellor presiding over [an] advisory council plus (a) second independent organisation with freedom to publish'.<sup>35</sup> Central to this idea was the independence of the second tier. The FBI leaders understood well that the success of the project of co-ordinating plans relied on the voluntary submission of accurate information across industrial sectors. Unless the central repository of this information could be distanced in some way from ministers and civil servants, industry would be unlikely to co-operate. In addition, an office that was tied too closely to the government machine would have considerable difficulty maintaining an agenda distinct from that of the government of the day. Kipping also supported the 'two-tier' model on grounds of political practicability—as he commented to Harrison, '[t]he trade unions can not contribute to the

<sup>33</sup> See the FBI Circular to member firms, 20 September 1961: 'This is, of course, "planning", but since all of us plan in our own businesses I see no reason why we should be afraid of the word' (F/3/P7/2/1). The NUM (renamed, to avoid confusion, the National Association of British Manufacturers (NABM) in 1963) remained consistently opposed to planning under any guise: '... it is not very clear what can be achieved in the way of a long-term plan, given the absence of controls (which we would not favour) to make this effective', NUM note, August 1961 (F/3/D3/9/14).

<sup>34</sup> Letter from M. Wray to Kipping (FBI Director-General), 3 July 1961 (F/3/S2/7/7).

<sup>35</sup> Kipping, 14 August 1961 (F/3/S2/7/7).

planning organisation to any extent, but their co-operation in the top consultative council is vital'.<sup>36</sup>

In August 1961, Chancellor Selwyn Lloyd invited Cyril Harrison to discuss the prospects of 'the joint study by Government, employers and trade unions of the country's economic prospects five or more years ahead'.<sup>37</sup> Lloyd's vision of the rationale of such 'study' was vague, as though the mere exchange of information at central level would be sufficient to engineer co-ordination. Whilst eager to assure industry that planning would not involve control or interference by government, Lloyd insisted on two 'constitutional' features of the proposed body in September 1961. First, '[r]esponsibility for final decisions on matters of Government policy must remain with the Government, [although] the views expressed by the Council would carry great weight both with the Government and with industry'.<sup>38</sup> Secondly, the Council was expected to have its own full-time staff, but under the 'aegis of government' although outside the 'ordinary government machine'. These conditions were provided at the insistence of Lloyd's Cabinet colleagues, wary of binding their government to an institutional commitment that would undermine their discretionary power. It was a battle that the Conservatives would win, though the suspicions that the NEDC was dictating policy to the government continued to unsettle many Conservatives until their electoral defeat in 1964.<sup>39</sup> Lloyd seems to have envisaged a permanent body along the lines of the Cohen Council ('3 Wise Men'), or the German 'Sachverständigenrat' ('5 Wise Men') making authoritative recommendations to the nation. In his view, any Office attached to the Council would provide secretarial assistance alone.

The industrial representatives did not hide their disappointment at these proposals. Harrison replied to Lloyd:

This is too reminiscent of the original concept of the Planning Board and the Planning staff, which was shown not to work . . . I am convinced the Office must have a larger measure of independence if it is to gain this co-operation (of industry) and if it is to recruit staff of the requisite quality . . . Our feeling about the status of the Office is based too on our doubt whether a Council of twenty is suitable to do more than advise the Government on the findings of the Office.<sup>40</sup>

<sup>36</sup> Kipping to Harrison (FBI President), 22 August 1961 (F/3/P7/3/1).

<sup>37</sup> Lloyd to Harrison, 4 August 1961 (F/3/P7/2/1-3). The TUC refused to engage in discussions over the proposed body in retaliation to the enforced 'Pay Pause'. They eventually agreed to participate, though their influence concerning the constitutional status and structure of 'Neddy' was minimal.

<sup>38</sup> Lloyd to Harrison, 23 September 1961 (F/3/S2/33/1).

<sup>39</sup> See, for example, the Commons debate following Lloyd's statement that it was the responsibility of the NEDC to set the target growth rate—especially Lloyd's response (Hansard, col. 1629, 12 April 1962).

<sup>40</sup> Harrison to Lloyd, 26 September 1961 (F/1/2/GC/1.61-86.61).



On 9 October representatives of the four major industrial organizations—FBI, the British Employers' Confederation (BEC), the Association of British Chambers of Commerce (ABCC), and the National Union of Manufacturers (NUM)—met to discuss their response to Lloyd's proposals. The discussion re-emphasized the importance of the constitutional and functional independence of the Office to the credibility of the entire planning experiment. The FBI insisted that the Office have an independent power to commission studies, i.e. independent both from government and from the first tier or Council ('If the Staff must act always through the Government Departments, its subservience to the Government will be emphasised'). It was noted with regret that the Chancellor was contemplating an office of temporary secondments rather than a permanent staff, because 'a body which has no permanent members is unlikely to carry the weight with the Council or the general public that is desirable'. Even the character of the Office's Director-General was seen to be an important factor in the credibility of the institution and the likelihood of inducing the co-operation of industry.<sup>41</sup> The document that emerged from the meeting concluded critically:

The Staff or Office will lack the degree of independence necessary to enable it to do work of a truly new and vital character. . . . The Staff or Office and the National Economic Development Council will together be too much under the influence or control of the Government. This does not follow from the constitution of the Council, which is broadly in line with the proposals of the four industrial bodies, but from the powers and channels of communication available to the Staff or Office, which will circumscribe the work not only of the Staff of Office but also that of the Council.<sup>42</sup>

Disagreement was also expressed over the nature of the Office's work. More defensive industrialists were suspicious of the idea of generating 'projections', as it implied circumventing the independence of private industry. Indeed these sceptics envisaged a permanent research body with no independent powers whatsoever. This sentiment stemmed in part from disquiet at the prospect of sharing information with union representatives, or granting any form of authority to an institution in which government and union representatives could constitute a majority overriding the interests of industry. Indeed the chief attraction of the whole experiment to many firms and leading industrialists lay in the opportunity it presented to

<sup>41</sup> 'Is the Chancellor thinking of seeking a man of absolutely outstanding ability and reputation, or is he thinking of appointing someone who would be controlled by, and feel obliged to look up to, the senior Treasury civil servants?', 'FBI Note for Discussion', 9 October 1961, F/3/S2/33/1. An analogy was drawn between the desired role of the Director-General and that of the Secretary-General of the United Nations!

<sup>42</sup> All quotes in this paragraph from 'FBI Note'.



attack the restrictive practices of unions.<sup>43</sup> As the negotiations on the shape of the proposed body continued, and the divergence of expectations became more conspicuous, these conservative interests gained the upper hand within the FBI-BEC delegation.

Consequently the meetings between Lloyd and the industrialists developed into defensive stand-offs between a Chancellor constrained by his Cabinet's insistence on preserving the constitutional autonomy of government, and an FBI-BEC delegation under increasing pressure to maintain the autonomy of member firms. In deference to the Chancellor's difficulties the industrialists conceded on the issue of the Office's independent power of publication. Crucially, it was also agreed that industrialists would sit on the Council in a personal rather than a *representative* capacity in order to appease Lloyd's colleagues' fears that NEDC would emerge as a rival 'industrial Parliament'. As a gesture to the still self-exiled TUC they also consented to downplay their insistence on the independence of the Office's Director.

Divisions among the leading industrialists were by now becoming more pronounced. In a revealing confidential letter to Cyril Harrison, Maurice Laing (who was to be one of the six industrialists on the first NEDC) expressed his concern about the whole planning experiment. Unlike previous British visitors to the French Commissariat du Plan, Laing returned sceptical of the transferability of the French system to Britain. Agreement on the parameters of the Plan, he argued, was only possible in France because of the 'virtual dictatorship' of de Gaulle. The French had complained about the accuracy of the Plan in recent years, and its existence did not prevent a series of devaluations. But his gravest doubts concerned the political use of a planning body. In particular, Laing warned his FBI colleagues that the institutional machinery employed for benign, voluntaristic planning under a Conservative government could be transformed into a socialist Leviathan under a Labour government:

I am concerned that the TUC will use the new Planning Body politically, and that the Labour Party may, in fact, initiate much of its policy as a direct result of the knowledge gained by the TUC members of the proposed NEDC . . . If a Labour Government came to power I believe that this new Planning Body could immediately be used by them to impose on the country a full 'planned economy' which could include full scale Socialism and ease of nationalisation of

<sup>43</sup> The TUC anticipated this, and consequently made it clear to Lloyd that they favoured a strong tripartite Council with something akin to statutory powers, combined with a weakened Office. They also expressed hostility to the idea of including independent members on the Council, favouring a purer form of tripartite corporatist representation, and insisted as a condition of participation that wage policies would not be an item of discussion. See the handwritten minutes of Lloyd's meeting with the FBI, 16 October 1961 (F/3/S2/33/1), and Hagen and White, *Great Britain*, 35–6.

many industries . . . To sum up, whereas in theory I still agree with the necessity of planning I think the dangers enumerated above are very real, and unfortunately, short of being certain that we have a Government who, having seen the dangers, is strong and resolute enough to avoid them, I have no practical suggestions as to how they are to be overcome!<sup>44</sup>

Thus by November 1961 the completion of negotiations had been accomplished at the expense of the institutional idealism of Beaver and his more progressive colleagues. The constitutional problems of the Council and the Office had been fudged rather than resolved, trumped by the need to mollify the unions and by the intransigence of Lloyd and/or his Cabinet colleagues, and fuelled by the growing scepticism of the FBI's rank-and-file. The price for securing an agreement at the expense of a credible independence was a planning body incapable of fulfilling the aspirations that had inspired it—in Brittan's words, 'sandwiched midway between the Government and industry'.<sup>45</sup> In particular, the consolidation of the NEDC machinery was crucially hampered by the fear of the use to which it might be put by future administrations. Even as the NEDC was launched, Geddes sounded a note of pessimism to FBI Director-General Norman Kipping about the limits of a constitutionally circumscribed Council and Office:

Behind these thoughts, for what they are worth, . . . there remains my regret that the Chancellor chose to bind Neddy so close to the Government machine and thereby to party politics, by presiding and having two ministers on it. The advantage of greater access to Government information will probably be a real one, but we will do well if we can avoid our work and the publication of it being hampered.<sup>46</sup>

### *Eighteen Months of Conservative Planning: March 1962–September 1963*

The NEDC met for the first time on 7 March 1962, though the opening press

<sup>44</sup> Maurice Laing to Harrison, 24 November 1961 (F/3/P7/2/1). A month earlier Reginald Maudling (soon to become the Chairman of the NEDC itself) had made a speech in Hastings criticizing the FBI's motivations in embracing the 'planning fad': '... it is tempting, if you hold certain views about economic policy, to assume that any new planning system, particularly one run by independent people, would be bound to act on your particular ideas' (speech, 10 October 1961, White Rock Pavilion, Hastings, F/3/S2/33/1). Maudling replaced Lloyd as Chancellor in July 1962 after Macmillan's purge of the Cabinet, and brought to the NEDC chairmanship a deep mistrust of the entire experiment. Interview with Viscount Whitelaw, 8 December 1994; Brittan, *The Treasury Under the Tories*, 262.

<sup>45</sup> Brittan, *The Treasury Under the Tories*, 61. Brittan later gives an indication of the low esteem in which the NEDC was held by mid-1964, commenting that the Labour government's 1948 'Long-Term Programme' 'was taken even less seriously than NEDC is today' (157).

<sup>46</sup> Geddes to Kipping, 1 May 1962 (F/3/D3/9/14). The ambiguities of the term 'planning' in the context of the NEDC's work are discussed in Jim Tomlinson, *British Macroeconomic Policy since 1940* (London, 1985), 86–96.

conference was delayed due to a faulty lift in Millbank. Robert Shone from the Iron and Steel Board had been installed as the first Director-General of the second tier Office (NEDO), though by 7 March he had only recruited fifteen of sixty staff positions. In the opening statement, Lloyd spelled out the threefold mission of the Council:

- a) to examine the economic performance of the nation with particular concern for plans for the future in both the private and public sectors of industry; b) to consider together what are the obstacles to quicker growth, what can be done to improve efficiency, and whether the best use is being made of our resources; c) to seek agreement upon ways of improving economic performance, competitive power and efficiency, in other words, to increase the rate of 'sound growth'.<sup>47</sup>

By 'sound growth' Lloyd meant growth consistent with a strong currency. Indeed, such was the fright amongst Treasury officials that the NEDC experiment would countenance policies endorsing or entailing sterling's depreciation that they packed the agenda of the first meeting with three papers on the fallacies of growth strategies relying on manipulation of the exchange rate.<sup>48</sup> Lloyd also urged the Council not to duplicate the work of other bodies, but assured his fellow members that he 'would not seek to exclude any subject from the discussions and he would not arrogate to Ministers the right to fix the agenda'. By May 1962 the Council had given its approval to Shone's plan of action. Firms in sixteen (later seventeen) industries covering over 50 per cent of GDP were designated to receive questionnaires on their future production plans, and would be asked to consider the 'implications' for their industry of meeting a 4 per cent rate of growth per annum target in the economy over a five year period.<sup>49</sup> The industrial survey was to be complemented by an econometric study of the macroeconomy 'to consider in the light of the results of the inquiries whether the suggested 4% rate of growth would be consistent with a sound balance of payments and produce the right proportion of exports'.<sup>50</sup> The

<sup>47</sup> NEDC Meeting #1, 7 March 1962 (FG 1/1).

<sup>48</sup> In NEDC (62) 4 ('The United Kingdom Balance of Payments'), the value of a strong currency to world trade and both former and current colonies was emphasized. It argued that since the world's holdings of sterling exceeded Britain's sterling reserves by some margin, Britain was compelled to maintain a strong pound. NEDC (62) 2 ('National Efficiency and Obstacles to Economic Growth') 'concluded that the basis of economic growth in this country must be improvements in national efficiency' (para. 1), and 'that any policy for growth which damages the balance of payments must be ruled out' (para. 13) (FG 1/2). Otto Clarke from the Treasury's National Economy Group told Shone in June 1962 that he would advise the Chancellor to rule out discussion of devaluation *altogether* at NEDC meetings. Letter to Sir Frank Lee, 28 June 1962, EW 25/27, PRO.

<sup>49</sup> The figure of 4% implied an average productivity increase of 3.3% per worker per annum, as the labour force was expected to expand by 0.7%. Sir Alec Cairncross suggests that Lloyd initially wanted a 5% target (interview, 25 February 1994).

<sup>50</sup> Minutes Meeting #2, 9 May 1962 (FG 1/1), 2.

question of identifying and overcoming the general obstacles to growth would be undertaken by NEDO researchers, who would present their thoughts and findings to the Council for confidential discussion.<sup>51</sup>

Under MacDougall's direction the Economic Division of the Office produced an abstract outline model of the economy consistent with the 4 per cent growth target. The model made a number of assumptions that would later require revision; in particular it assumed entry into the Common Market by the end of 1963, and that much of the increased productivity required would stem from an increase in the efficiency of existing plant rather than new investment. Given the relatively inflexible and fundamental assumption of a 3.3 per cent rise in productivity, investment was required to increase by 6 per cent per annum, exports by 1 per cent more than imports, and public expenditure by 3.6 per cent. By January 1963, the results of the industrial survey seemed to give cause for optimism about the practicability of these targets—the Council was assured that '[t]he conclusion that a faster rate of growth was feasible for the British economy seemed well established'.<sup>52</sup> This optimism had spilled over into the political arena. Macmillan and Lloyd publicly claimed the 4 per cent rate of growth as a firm 'target' for convergence across the economy long before its feasibility had been studied or confirmed by the NEDO.<sup>53</sup>

In the first few months of 1963, however, the Council's faith in its own transformative capacity was severely dented. Laing commented to his industrial colleagues in November 1962 that 'the task facing NEDC was comparable with that facing a Board of Directors of a firm which had previously had no system of budgeting control'. Establishing such a system of control or monitoring, however, was impossible for the NEDC. The first blow was the breakdown of negotiations to join the EEC in January 1963; despite Maudling's reassurance that the NEDC's targets could substitute adequately as an incentive to British industry, the unfeasibility of the desired figure for export growth (6–6.5 per cent, 'the key figure in the outline model') was underscored. Secondly, at the turn of the year inflation began to rise once more, and the government's attention began to turn

<sup>51</sup> The econometric study was published as *Growth of the UK Economy 1961–1966*, whilst the study of obstacles to growth was entitled *Conditions Favourable to Faster Growth 1961–1966*. They were more familiarly known as the Green and Orange books, respectively.

<sup>52</sup> Minutes Meeting #1, 24 January 1963 (FG 1/4), 2

<sup>53</sup> The Treasury advised caution on this matter. Vinter, a Treasury official, remarked in May 1962 that '... it would be frustrating for the Council as well as possible [sic] embarrassing to the Chancellor in public to become committed to it [the 4% target] in any way before there had been very thorough examination by the Office, under the directions of the Council, as to what is involved', Vinter to Clarke, 3 May 1962, EW 27/25. Lloyd ignored this advice partly because he was anxious to appease his Conservative colleagues' fears that the government was taking its cue from the NEDC, and to demonstrate instead that the initiative was his rather than the Council's. See Lee to Clarke, 27 March 1962, EW 27/25.

away from long-term questions of planning and efficiency, and back to the immediate issue of controlling wages.

The Council also realized that the accuracy of the information provided in the Industrial Survey was questionable. Although in aggregate the industrial reports indicated that the outline model's targets were attainable, the variation in forecasts within and between industries caused the Office grave concern. Further research on manpower estimates, for example, suggested that '[t]he estimates of the particular industries might have been coloured by the desire to retain skilled labour'.<sup>54</sup> The reasons for the poor quality of the information supplied were threefold. Undoubtedly many firms were wary of supplying data to a body that they considered indistinguishable from government itself. Secondly, as the Office argued, there was a perception that misreporting estimates might offer strategic advantages over domestic competitors, while the FBI possessed inadequate infrastructure or independent informational sources to assess the reports of its member firms. But a significant reason lies in the methods and conduct of the survey itself. An FBI paper of September 1963 concluded in hindsight that:

The first report . . . was based on a hastily conducted enquiry into 17 industries representing about two-fifths of the national product. It was not the fault of the NEDC that the industrial enquiry was conducted in a comparatively cursory manner since the Council was anxious to report without undue delay. Nevertheless, the fact remains that the first report rests upon an inadequate appraisal of industrial capacity.<sup>55</sup>

Whatever the shortcomings of the NEDC inquiry the FBI was painfully aware that many member firms were far from competent respondents. An advisory meeting of FBI officials with surveyed industries on how to complete the questionnaire revealed uncertainty about the assumptions upon which the forecasts were supposed to be based, the linkages between sectors and their implications for methods of assessment, and most shockingly a general state of ignorance on how to calculate future plans at all!

Perhaps most damaging was the realization that the obstacles to growth (revealed with increasing vividness and speed by the research work of the Office) would undermine any realistic chance of reaching the specified targets. Among the most pronounced problems was the skill mismatch between the types of labour being released by declining industries and those required by expanding industries.<sup>56</sup> Activist solutions to problems of labour mobility were rejected by both union representatives and the industrialists as improper intrusions by government into firm-level

<sup>54</sup> NEDC Meeting #1, 24 January 1963 (FG 1/4), 3.

<sup>55</sup> 'A Review of the NEDC', 17 September 1963 (B/3/3/201.4).

<sup>56</sup> See Minutes of Meeting #6, 29 November 1962 (FG 1/1), 4.

autonomy. A recurrent complaint was that the frequency of poaching of skilled labour within industries reduced the quantity of skilled labour but increased its market value significantly.<sup>57</sup> The survey also confirmed the problem of the dissemination of the fruits of R&D within an industry. Without strong industrial associations, it was argued, it was unreasonable 'to expect that firms which had spent a lot of money in developing new products or improved processes would be prepared to give the information to their competitors'.<sup>58</sup> The current system of research 'in isolation' within firms generated not only low levels of aggregate research activity, but increased the proportion of 'irrelevant and unproductive research' and 'increase[d] the possibility of wasteful duplication of resources'. In the area of investment, the Council was acutely aware of the collective action problems that underlay the phenomenon of fluctuating stocks and disturbed production trends:

The view was expressed that it would help considerably if fluctuations in production could be avoided by stocking up at times of low demand, provided that the reduction in demand was temporary and there would be a sale for the accumulated stocks. But *there was no co-ordinating body* to balance the costs of holding such stocks against the costs of unemployment. Similarly, in attracting new industries to the less prosperous regions, *there was no one body which could meet the cost involved*, offsetting against it the savings in other costs and the social benefits obtained.<sup>59</sup> [emphasis added]

Diagnoses such as these reveal one of the essential dilemmas of the planning experiment—for all their rhetoric on 'co-ordination', the FBI and BEC continued to reject both patterns of industrial organization that could have facilitated such co-ordination, and the possibility of government intervention at the micro-level to eliminate the underlying collective action problems. Beyond mere exhortation to firms to change their supply-side strategies, there was little that could be achieved by the NEDC machinery. In effect, the NEDC was rendered powerless as an agent of industrial policy by the limits of its constitution and the defensiveness of its participants. Indeed, from mid-1963 onwards it had become clear that the pursuit of a 4 per cent target without any accompanying remedies to the weaknesses of industrial production was promising another round of economic crisis. Maudling's 1963 budget had been premised on this target figure, but

<sup>57</sup> Minutes of Meeting #4, 6 March 1963 (FG 1/4), 5: 'One of the difficulties was that particular firms could not judge what others would do, and there had therefore been no overall approach to the problem'. Work on industrial training had been proceeding within the Ministry of Labour since 1960. The 1964 Industrial Training Act cannot therefore be claimed as a triumph for the NEDC, as Hagen and White suggest (*Great Britain*, 52). See Desmond King, *Actively Seeking Work? The Politics of Unemployment and Welfare Policy in the United States and Great Britain* (London, 1995), 128–31.

<sup>58</sup> Minutes of Meeting #1, 24 January 1963 (FG 1/4), 8.

<sup>59</sup> *Ibid.*, 4.



'generated an oldfashioned consumer boom, heavily oriented towards construction and the consumer durables, which, far from strengthening exports, was sucking in imports . . . [T]he boom went on, throughout 1963 and 1964, but with increasing signs of strain on the balance of payments, and the re-emergence of bottlenecks in some parts of the domestic economy.'<sup>60</sup>

In private, the industrial members of the NEDC expressed their scepticism and discontent to their representative associations. At a meeting of the NEDC Liaison Group in April 1963, Reay Geddes noted that during the previous two months 'the difficulties of economic planning had been brought home to the more optimistic protagonists', and that in industry generally '[t]here were still doubts about the role of NEDO' and a marked reluctance to disclose confidential information to it.<sup>61</sup> This was hardly surprising given the government's recurrent insistence to its sceptical backbenchers that the NEDC had no independent authority and did not threaten the conventional autonomy of Her Majesty's Government. As early as April 1962 Lloyd had categorically stated in the House of Commons: 'There is no question of the Government abdicating their responsibilities to NEDC . . . Executive action subject to the control of Parliament must rest with the Government for budgetary matters, monetary policy and for matters such as the distribution of industry.'<sup>62</sup> Yet Lloyd was also a champion of the idea that the NEDC should remain 'outside the Whitehall complex', in order 'to be successful in bringing together the views of people inside and outside Government', and to '[give] its studies a value and authority which they would not have were the NEDC staff just

<sup>60</sup> Michael Shanks, *Planning and Politics: The British Experience 1960–1976* (London, 1977), 28. Maudling himself was well aware of the risks associated with this reflationary strategy (' . . . we went for expansion, quite deliberately, with our eyes open, recognising the dangers'; Reginald Maudling, *Memoirs* (London, 1978), 116). Edmund Dell offers a scathing critique of this 'gamble fashioned by politics', and Maudling's 'carefree, romantic, cavalier defiance' of economic common sense. Edmund Dell, *The Chancellors: A History of the Chancellors of the Exchequer, 1945–90* (London, 1996), 283–303.

<sup>61</sup> NEDC Liaison Group Minutes, 8 April 1963 (MSS.200 NEDC 1/1). Johnson was more critical of the failure of the Council and Office to earn popularity or respect: ' . . . the extent to which NEDC has made an impact upon the country at large is less evident. The Council's public relations arrangements are unimaginative and inadequate. Little has been done to present to the public in everyday terms the implications of the 4% growth target. Even more important from the Council's point of view, people in industry have still to feel a sense of "involvement" with the NEDC's work'. 'A Review of NEDC'. In the same month, Cyril Harrison admitted that 'there was a growing feeling among the Management members that some of the steam had gone out of the NEDC Office', Meeting, 27 September 1963, MSS 200.NEDC 1/1, Modern Records Centre, Warwick.

<sup>62</sup> Selwyn Lloyd, Commons Debate, 12 April 1962. The previous day Edward Boyle, Secretary to the Treasury, averred: 'I notice.. that.. it has been suggested that the Government are planting all responsibilities on the Council. THE TIMES used the words, "waiting for Neddy". Nothing could be further from the truth. The Government have no intention of unloading their proper responsibilities. I believe that some confusion has arisen because the way in which the Council (works) has been misunderstood'. Hansard, 11 April 1962, col. 1343–4.



another government department'.<sup>63</sup> Neddy's independence was an asset for Lloyd in his struggles with the Treasury, but it had no clear status *vis-à-vis* other departments. As Joan Mitchell observed, by 1964 Neddy pronouncements had become 'merely useful propaganda support when they were in accordance with departmental policy; and words which could be safely ignored when they were not'.<sup>64</sup> Thus, the combination of an insistence on government autonomy over policy and maintaining Neddy's distance from Whitehall added up to a recipe for obsolescence.

In the face of supply-side problems that they had no will or capacity to tackle, the industrialists turned towards the panacea of an incomes policy, which (they hoped) would involve commitment from workers rather than management. It was a theme to which the Conservative government, faced with creeping inflation and an upcoming election, was sympathetic, though the TUC managed to block all overtures towards specific commitments and 'Declarations of Intent' until early 1965. Nevertheless, after June 1963 the control of incomes is the only policy area that received serious consideration and debate on the Council until well into 1966. The original intention of the NEDC to co-ordinate and stabilize the non-wage elements affecting production costs had been sacrificed to political expediency and divisions within industry.

Industry's scepticism towards the NED framework was further and vividly exemplified during the process of establishing the industrial commissions, or 'little Neddies' (also called Economic Development Committees or EDCs). These bodies were intended to be tripartite in structure, whose main function would be the collection of information to assist the NEDC. During a NEDC meeting in October there was considerable opposition raised from the industrialists to the suggestion that the EDCs be given powers to examine the efficiency of industry and remedies to impediments. By the subsequent meeting industry had forced the Office into a change in the remit for EDCs in order to clarify that '(t)he committees would not have executive powers and their reports would come to the Council'.<sup>65</sup> Once again, this attitude was based on an unswerving commitment to the autonomy of plant-level actors: as Frank Cockfield, Managing Director of Boots and one of the 'industry six' commented in October:

The true operational unit is the individual firm or the individual trade union. This point is fundamental. So long as we are looking at voluntary planning the ultimate decisions are made by the individual firm and the individual trade

<sup>63</sup> Selwyn Lloyd, from an article in *Crossbow*, August 1963, quoted in Shanks, *Planning and Politics*, 29–30.

<sup>64</sup> J. Mitchell, *Groundwork to Economic Planning* (London, 1966), 144; also, Leruez, *Economic Planning and Politics in Britain*, 104–8.

<sup>65</sup> NEDC Meeting #10, 4 December 1963 (FG 1/4), 1.

union and it is their thinking and their actions which ultimately we must influence.<sup>66</sup>

At a Liaison Group meeting earlier in the year the wariness of industrialists to the whole proposal had been abundantly clear. Norman Kipping received support for his suggestion that NEDO members should not be allowed to serve on the EDCs because of their links to central government. There was also a pronounced anxiety about discussing investment and pricing plans with unions even at the industrial level, and it was only with great reluctance that the industrialists on the Council allowed any union representation at all.

But uppermost in the minds of industrial leaders was the fear that the EDCs would be used as tools for introducing socialism in the event of a Labour electoral victory. There was a widespread sense that the EDC model should be based on staff and researchers drawn from industry itself, as 'industry would be in a stronger position to resist radical policy changes by another Government if the control of the Committees rested in the hands of the industry concerned'.<sup>67</sup> The confidential document 'NEDC: Liaison with Industry' expressed this central concern forcefully, but argued that rather than opposing their formation industry should seek to construct them 'in their own image' so as to deter reconstitution in the future:

A Labour Government would probably wish to use the Committees as instruments of planning rather than as a means of consultation and of exchanging information and ideas. Although a change of function such as this would meet with resistance on the part of employers this is not an argument for opposing their creation . . . [EDCs] offer a powerful, alternative means of obtaining a hearing for industries' views.<sup>68</sup>

### *The Subordination of the NEDC and NEDO: Labour and 'The Plan'*

The search for a national incomes policy throughout 1964 was fruitless. Unions resisted co-operation with a pre-election Conservative government, while insisting on some form of profit or price control on the part of management to accompany wage control. For their part industrial leaders rejected any form of profits control and only grudgingly began by the year's end to accept the possibility of central review of price decisions as a quid pro quo for income restraint. NEDC meetings were clouded by the intransigence of both TUC and FBI-BEC members, leading to a marked degeneration of the cordiality and optimism that had characterized the first

<sup>66</sup> Letter from Cockfield to FBI, 22 October 1963 (FG/2/89).

<sup>67</sup> Comment from Mansell (National Council of Building Material Producers) at Trade Associations Meeting on NEDO proposals to establish EDCs, 4 September 1963 (F/3/S2/19/7).

<sup>68</sup> 'NEDC: Liaison with Industry', October 1963 (F/3/S2/19/7).

year or so of the Council. E. J. Hunter, the shipbuilding industrialist, remarked somewhat apocalyptically in March 1964:

I must say that I am very unhappy about the whole affair (i.e. the failure to secure agreement on a price and incomes policy) and I feel that the consequences of our public expressions of opinion on prices and profits are unfortunate in the extreme and will have repercussions which we have yet to see.<sup>69</sup>

At the same time, neither Heath nor Maudling held the NEDC in particularly high regard. While in the Treasury's view, if the NEDC was unable to secure income control then it had no useful function whatsoever.<sup>70</sup>

The dominance of the issue of price and incomes control transformed the NEDC. By the time of Labour's electoral victory in October 1964 a consensus had emerged on the side of industry that the NEDC should be reconstructed 'to provide for direct representation of management as is already the case with the TUC'.<sup>71</sup> Indeed, perhaps the most important legacy of this whole period was the amalgamation of the four industrial associations into one umbrella body in late 1965, the Confederation for British Industry (CBI). The process was accomplished remarkably smoothly largely because of the widespread sense of urgency that employers needed to match the organizational unity of the TUC if they were to be capable of credible bargains over income control. In early November 1964 a meeting of DEA officials and FBI representatives agreed to the transformation of the representative basis of the Council.

Labour had other ideas for the NEDC, however. At the first post-election meeting of NEDC on 12 November 1964, George Brown (First Secretary of State and Secretary for Economic Affairs) announced his desire to reconstitute the Council. Its new role, he declared, would be to:

participate in the formulation and implementation of the national economic plan and of discussing related policies and problems. He wished to make it clear that the Government's decision to set up the Department of Economic Affairs with primary responsibility for economic planning should not diminish the responsibility of NEDC in this field. Although NEDC would no longer be responsible for initiating the work of economic planning, it would be able to participate in a much more effective form of economic planning than had hitherto been achieved and which would require for its realization a greater degree of involvement by both sides of industry.

Brown revealed that he had contemplated incorporation of the NEDO into the DEA, but on the advice of MacDougall and others had decided that there was some value to be derived from its continued 'independence'.

<sup>69</sup> Hunter to Runge, 13 March 1964 (F/3/P8/12/1).

<sup>70</sup> See Brittan, *The Treasury Under the Tories*, 269.

<sup>71</sup> Lord Sanderson's Study Group, 'Incomes Policies' (EPP 64/114, F/3/P8/12/1), 2.

Most of the NEDO staff, however, would be transferred to the DEA itself. Brown also announced an alteration of the relationship between the NEDC and the EDCs:

With regard to the Economic Development Committees or 'little Neddies', the First Secretary proposed that the Chairmen of the Committees should be appointed by himself in future and that the Committees should be primarily responsible to the new Department. Their work would however be planned and supervised jointly by the Chief Industrial Advisor to the Department of Economic Affairs and the Industrial Director of NEDO.

Unsurprisingly, these proposals alarmed the industrial representatives considerably, for they entailed 'comprehensive' rather than 'indicative' planning, incorporation of the NEDO into the formal government machinery, the emasculation of the Council within the NED apparatus, and, most importantly, a rejection of the independent role of the Council in producing projections and targets. At the meeting they urged that Brown maintain the 'strongest possible role for NEDC in the field of economic planning':

They had some difficulty in envisaging how such a role might be achieved in a situation in which the plans themselves would be produced by the Department of Economic Affairs, and not by NEDO, as hitherto . . .

On the question of whether the NEDC would be able to propose 'Aunt Sallies' for discussion, Brown responded:

He would not wish in principle to exclude any relevant subject from the scope of the discussions, although he wished to make it clear from the outset that *final responsibility for action could rest only with the Government in those fields for which they were directly responsible* . . . he hoped that time would not be wasted in putting up rival schemes and that arrangements would normally be made for the various alternatives to be explored by consultation between NEDO and the Department beforehand.<sup>72</sup> [em.phasis added]

Labour's 'reconstitution' of the NEDC, NEDO, and EDCs vindicated the 'Neddy pessimists' within industry who had argued for a weak commitment to the machinery all along. The independent role of the NEDC after November 1964 was negligible.<sup>73</sup> Planning was conducted elsewhere in the newly created DEA, and while the frantic negotiations for incomes policy sometimes used the NEDC as a discussion forum, the fact that it took place during Council meetings was of little consequence. The NEDC became an adjunct to other forms of institutional efforts at wage control. While the advent of a Labour government thus certainly marked the

<sup>72</sup> All quotes in this section from Minutes of Meeting with FBI, BEC, ABCC, and NABM at the DEA, 12 November 1964 (F/3/P8/12/1).

<sup>73</sup> See James Fulcher, *Labour Movements, Employers and the State: Conflict and Co-operation in Britain and Sweden* (Oxford, 1991), 168–9.

beginning of serious attempts at income control through tripartite agreement, it marked the end of the aborted experiment with supply-side co-ordination within the voluntarist framework.

The CBI undertook a review of its participation in the NEDC in 1966 under the chairmanship of John Davies. Achievements that were claimed by the NEDC as its own—the establishment of two new business schools, the Industrial Training Act, legislation designed to improve the mobility of labour, etc.—were judged to be ‘policies the Government would have pursued without an NEDC to lend support’. Davies pointed to one of the basic flaws of the methodology of ‘indicative planning’, i.e. the conflict between the function of making projections around which expectations were intended to converge, and the presence of significant obstacles to efficiency (without a corresponding effort to remove them) that made the realization of such plans impossible. He suggested most critically that,

... harm can be done if over-optimistic projections are regarded as a basis for expanded Government expenditure, or as a basis for wage claims within an incomes policy *before the precedent conditions are assured*. [emphasis added]

There was unequivocal regret expressed at the incorporation of the NEDO within the DEA. In consequence, the influence of the Council had been ‘greatly reduced’, and the reduced importance accorded to the NEDC was reflected in the withdrawal of the Chancellor and First Secretary from its meetings.<sup>74</sup>

In practice, the Government showed little willingness to listen to industry’s advice except where it coincided with the Government’s own objectives. Thus, although the present Government paid lip-service to the NEDC it has used it primarily as a means of trying to screw a reluctant commitment from industry to a National Plan about which industry had serious reservations and which the Council was given little time to consider.

In short, Davies concluded, ‘the NEDC’s influence on events in the last two years has been negligible’.<sup>75</sup>

### Conclusion

Looking back at the Neddy experiment, Sir Donald MacDougall, the first Economic Director of the NEDO, elaborated the ‘confidence trick’ upon which it depended.

<sup>74</sup> John Davies commented: ‘The absence of the Chancellor from the Council was however the most serious loss since there are few problems of economic growth which do not, in the last analysis, raise questions of fiscal or monetary policy’ (‘The National Economic Development Council’, 19 September 1966 (C/1/2/C.59.66)).

<sup>75</sup> All quotes in this section so far from Davies, ‘The National Economic Development Council’.

[The trick] consisted of thinking of a number for the growth of the economy over a period ahead rather greater than had been achieved in the past, and working out what it would involve for all concerned. Then everyone would work on the assumption that it was going to happen, and lo and behold it would happen.<sup>76</sup>

Perhaps the failure of the confidence trick is heavily over-determined, beset by a variety of contradictions and design faults. Some commentators, such as Roy Harrod, see the Neddy project as doomed on *a priori* grounds.<sup>77</sup> Others see its failure in 1960s' Britain as the result of the Treasury 'crowding out' potential rivals, a pattern soon to be repeated with the even more ambitious DEA. While these explanations have merit, I have argued that they miss a crucial paradox of the NEDC's marginal contribution to British public policy—its failure as a policy experiment is rooted in the very economic failure that it was designed to correct. For in a number of ways, the NEDC machinery was premised upon a degree of industrial co-ordination that was simply absent in the British economy. Without this co-ordination, the side-effects of growth remained costly, and with increased and unfounded confidence in the feasibility of higher growth came an exacerbation, rather than a reduction, of these side-effects.<sup>78</sup> Yet the absence of industrial co-ordination also explains the interests of firms in resisting the attempts to improve Britain's supply side—as well as their mistrust of an administrative body that was tied too closely to politicians and officials, in turn jealous of their decisional autonomy.<sup>79</sup>

Explanations for the frailties of the British economy and for the weakness of 'collectivist' policy initiatives commonly focus on trades unions, the 'scapegoats of national decline', but hardly ever on Britain's industrial employers.<sup>80</sup> Scholars of British 'capital', on the other hand, seem preoccupied with its financial rather than its industrial wing, and the dominance of

<sup>76</sup> MacDougall, *Don and Mandarin*, 139.

<sup>77</sup> 'It may be objected that the "indications" will not be much heeded, unless accompanied by some guarantee by the authorities that they will use normal policies to ensure that overall the economy achieves its growth potential. And so one might reach this dilemma. If the authorities can give this guarantee, they must have means of their own—apart from indicative planning—of ensuring growth in accordance with potential: then what is the need of such planning? But if they lack such means how can they give the all-important guarantee?', Roy Harrod, 'Are Monetary and Fiscal Policies Enough?', *Economic Journal* (December 1964), 907.

<sup>78</sup> Alan Budd provides data on the disparities between NEDC targets and outcomes in the 1961–6 period (*The Politics of Economic Planning*, 100). Total output rose by 2.9% (target: 4%), exports grew by 3.6% (target: 5%), and manufacturing investment grew by 0.2% (target: 3%).

<sup>79</sup> A witty and insightful analysis of Neddy that shares an industry-centred perspective is Michael Shanks, 'What Future for Neddy?', *Political Quarterly* (October–December 1962), 348–59.

<sup>80</sup> See Taylor, *Economic Planning and Politics in Britain*, ch. 1; C. Cook and B. Pimlott (eds), *Trade Unions in British Politics* (London, 1991).

the former over the latter.<sup>81</sup> But perhaps the pre-eminent position of the City (and of sterling) is at least partly a function of the organizational weakness of British industry. And as a factor in Britain's postwar economic record, the weak collective capacities of British industry surely deserved another look-in.

<sup>81</sup> For a discussion of this, see Desmond King and Stewart Wood, 'The Political Economy of Neoliberalism: Britain and the United States in the 1980s', in Kitschelt, Lange, Marks, and Stephens, *Continuity and Change*. A recent exception to these characterizations, which sees industry and its senior management as partly responsible for Britain's stuttering postwar economic record, is Geoffrey Owen, *From Empire to Europe: the Decline and Revival of British Industry Since the Second World War* (London, 1999).